SIERRA SYSTEMS GROUP INC.

Sierra
New thinking.

ANNUAL REPORT 2003

SIERRA SYSTEMS GROUP INC.

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Sierra
New thinking.

OUR MISSION IS TO ENHANCE THE COMPETITIVE POSITION OF OUR CLIENTS THROUGH THE IMPLEMENTATION OF INFORMATION TECHNOLOGY-BASED BUSINESS SOLUTIONS.

SIERRA SYSTEMS GROUP INC. IS A LEADING NORTH AMERICAN INFORMATION TECHNOLOGY CONSULTING COMPANY.

Trusted: a : to rely on the truthfulness or accuracy of b : to place confidence in : rely on c : to hope or expect confidently (Merriam Webster).

For 37 years, Sierra Systems has lived by the idea that we deliver the greatest value to our clients by being their trusted advisor on technology. Even the best technology remains an inert tool until it is brought to life by people using it effectively to solve business issues.

Sierra Systems has become a trusted advisor by delivering value, not just once, but over time. We focus on learning to see the business — and the business pressures — through our clients' eyes. Technology initiatives are successful only when our clients believe we have delivered value.

Is there proof of our value? In client satisfaction surveys, 85% say we performed above expectations, and among our employees, 91% say we are a great place to work. For the fourth year in a row, we have been recognized as one of Canada's Top 100 Employers.

Sierra Systems provides advice and solutions you can trust to improve your competitive position.

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Financial Highlights

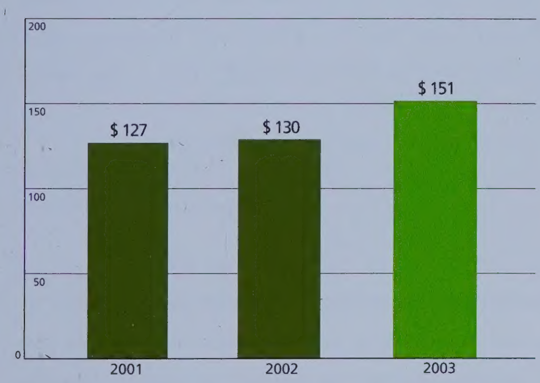
In this Report, all dollar amounts are Canadian unless otherwise noted.

(all figures in thousands of Canadian dollars except per share figures)

	2001	2002	2003
Revenue	$ 127 329	$ 129 952	$ 150 920
Operating income	3 760	3 068	6 599
Net earnings	1 535	1 688	1 417
Cash flow from operating activities	8 805	2 625	2 317
Shareholders' equity	58 624	61 389	62 931
Earnings per share	$ 0.17	$ 0.18	$ 0.15

Growth in Revenue

($millions)



Earnings Per Share

PRESIDENT'S MESSAGE

A MAJOR ACHIEVEMENT IN 2003 WAS THE CONTRIBUTION OF OUR SPECIALTY PRACTICE STRATEGY. BY FOCUSING ON OUR FOUR CORPORATE-WIDE SPECIALTY PRACTICES, WE WON EXCITING MANDATES IN THE FACE OF STIFF COMPETITION.

While the past year was dominated by difficult economic events, Sierra Systems performed admirably. Revenue in fiscal 2003 reached $151 million, a 16% growth on the prior year. Operating income increased 115% in the same period. These results exceed the experience of our industry. Our outstanding staff accomplished this success through diligent, hard effort.

A major achievement in 2003 was the contribution of our Specialty Practice strategy. By focusing on our four corporate-wide Specialty Practices, we won exciting mandates in the face of stiff competition. In Health, we are assembling Canada's first real Electronic Health Record in cooperation with the staff of Alberta's Capital Health Region in Edmonton. In Justice, we are working with the Los Angeles Police Department to build a unique information system that measures and anticipates officer performance. In Electronic Government, we are applying complex data mining techniques to enhance tax revenue collection for the Province of British Columbia. In Europe, we are helping an international agency roll out a global financial system.

These examples illustrate the scope of, and excitement we find in, the hundreds of projects we have undertaken through the year. In each, our mission – our dedication – is to enhance the competitive position of our clients. This is the value proposition we bring to each assignment.

OPERATING INCOME INCREASED 115% IN THE SAME PERIOD. THESE RESULTS EXCEED THE EXPERIENCE OF OUR INDUSTRY. OUR OUTSTANDING STAFF ACCOMPLISHED THIS SUCCESS THROUGH DILIGENT, HARD EFFORT.

In 2003, we leveraged our distributed branch network to facilitate undertaking larger and more challenging assignments. Our ability to have the right skills across our branch network to focus on a specific client need is key to our future growth. We are currently implementing two internal systems to enhance this capability. The first is a Professional Services Automation system which will provide a company-wide tool to better staff and manage our projects. The second is a Knowledge Management system which will encapsulate our client work experience. This will much better leverage the knowledge we've gained from past successes.

During fiscal 2003, we carried out a large number of actions to strengthen our operational capability. Operational responsibility was shifted from Vancouver headquarters to a Canadian and United States focus. Mr. Don Lundgren was appointed Executive Vice-President, Canadian Operations. From his Winnipeg base, Don has overall operational responsibility for all Canadian branches. Mr. Kent Meisner, who had been looking after United States Operations part-time while concurrently managing the Washington State branch, assumed a full-time operational responsibility in February 2003. A new hire, Roger Linnell, took over as Washington State branch manager. We transferred John Broere, our Winnipeg branch manager, to Washington DC, with a mandate to expand our business in that region. His prior position was filled by promoting Dan Thomson, a Victoria-based partner. Finally, we asked Ted Stedman, one of our branch managers, to assume full-time responsibility

DURING FISCAL 2003, WE CARRIED OUT A LARGE NUMBER OF ACTIONS TO STRENGTHEN OUR OPERATIONAL CAPABILITY. OPERATIONAL RESPONSIBILITY WAS SHIFTED FROM VANCOUVER HEADQUARTERS TO A CANADIAN AND UNITED STATES FOCUS.

for our corporate risk management function. We have been expanding this capability for several years. However, as we take on larger and larger assignments, risk mitigation has become a more vital issue to Sierra Systems. As a result of these moves, recruiting and a number of other promotions occurred among branch managers and Specialty Practice leaders. In total, twenty new partners were appointed – many as promotions in the branches to which they were assigned. All personnel changes, promotions and transfers were aimed at strengthening our operational capability. As we enter fiscal 2004, we believe our management structure has greatly improved the performance capability of Sierra Systems.

There are two new U.S.-based location offices. In Connecticut, the success we have had with the state led us to establish a permanent office there. Additional contracts have been signed, new staff moved to Hartford and new markets are being explored. In Austin, Texas, we are focusing on state government. Staff has been hired, an existing partner is transferring to the location and we are actively seeking new business based on our Specialty Practices.

The success of Sierra Systems is constantly monitored in terms of our ability to deliver true value to our clients. We must deliver what our clients expect on budget, on time and at the appropriate level of quality. In the course of the year, we undertook more than 400 client assignments. In fiscal 2003, no assignment shone brighter than our delivery of the Offender Based Tracking System (OBTS) for the State of Connecticut. Begun in the fall of 2001, this two-year, US$12 million contract illustrates Sierra Systems' skill, experience and commitment to excellence. We completed the project on time, on budget and to the quality desired by the state. We believe this solution places Connecticut's Justice Community ahead of all others in the United States. The success of OBTS has led to new business opportunities. New contracts, based on an OBTS-like solution have been signed and more are in our sales pipeline. In fiscal 2004, our Justice Specialty Practice will lead Sierra Systems' growth.

THE SUCCESS OF SIERRA SYSTEMS IS CONSTANTLY MONITORED IN TERMS OF OUR ABILITY TO DELIVER TRUE VALUE TO OUR CLIENTS. WE MUST DELIVER WHAT OUR CLIENTS EXPECT ON BUDGET, ON TIME AND AT THE APPROPRIATE LEVEL OF QUALITY. IN THE COURSE OF THE YEAR, WE UNDERTOOK MORE THAN 400 CLIENT ASSIGNMENTS.

Sierra Systems is driven by both organic expansion and acquisitions. In fiscal 2003, while we investigated many possibilities, we undertook no acquisitions. However, work did begin in April 2003, which led to our November 13, 2003 announcement of the intent to acquire Eastbridge Consulting Inc. and its subsidiary, Eastech Advanced Development Inc., a 65-person Atlantic-based information technology consulting and systems integration group. This acquisition positions Sierra Systems as a major force in Atlantic Canada. The transaction is effective January 1, 2004. We continue to investigate other opportunities which will expand our skills and reach. We hope additional acquisitions will occur in fiscal 2004.

Each year we continuously survey our clients and staff to measure how Sierra Systems is performing. Through responses to our questionnaires, we seek feedback on our processes, our performance and our value proposition. These surveys supplement management's information on how well each assignment is executed and how responsive we are to the needs of clients and Sierra Systems' staff. These feedback loops provide the basis for many of our management actions. One measure of which we are extremely proud is that in 2003 Sierra Systems was named, for the fourth year in a row, one of the top 100 companies to work for in Canada.

Looking forward to 2004, we have set profitability as our prime objective. As a result of several one-time factors, revenue growth is expected to be modest. Our annual outlook is set at $155 million. However, we anticipate a 46% increase in earnings per share to $0.60.

In closing, I must emphasize the enormity of effort invested by our staff through the year. Untold numbers toiled nights and weekends to ensure timely project deliveries. This extra effort was contributed voluntarily, out of commitment to the Company. All shareholders should understand and appreciate this dedication. It speaks volumes about the marvelous people with whom I am privileged to work. The success of Sierra Systems is entirely a reflection of their contribution.

Grant R. Gisel
Chairman, President & Chief Executive Officer
December 19, 2003

SIERRA SYSTEMS SPECIALTY PRACTICES

Sierra Systems is people, knowledge and technology applied to business problems. We can't tout a new and improved 4-litre thingy or advanced-power whatsit. We gain our competitive advantage by providing the professional services that help our clients gain advantages in their markets. We do this by developing deep knowledge in specific areas and applying it across the Company through our practice groups. Not only do we strive to become the trusted advisor to our clients, we also actively encourage our practices to become leaders in their industry.

Our Justice practice provides leadership in defining the standards that shape the interchange of justice information so sorely needed in today's uncertain world. Recently, our second LegalXML standard document, the court submission document, was accepted without objection, a rare occurrence.

Sierra Systems' Health practice is using the HL7 standard to deliver the first regional Electronic Health Record in Canada.

Financial Services spends more on IT than any other industry. We are helping them reap the most from those investments by applying industry standard best practices, such as the Information Technology Infrastructure Library, ITIL.

These, and the client successes on the following pages, are just a few examples of how Sierra Systems achieves industry leadership through its practices, and leverages that knowledge to better our clients, their industry and our results to you, our shareholders.

MTS COMMUNICATIONS INC.

"MTS Communications has a long-standing relationship with Sierra Systems. They understand the realities of the telecommunications business and have responded with a broad range of services as our business changes. Over the past few years, Sierra Systems has provided leadership to key initiatives that have increased our overall competitiveness. Sierra Systems' professionalism and results have established a true partnership between our companies."

NICHOLAS M. CURRY
VICE PRESIDENT BUSINESS TRANSFORMATION & INFORMATION TECHNOLOGY
MTS COMMUNICATIONS INC.

ASSANTE CANADA

"Assante is a financial services company whose mission is to simplify and enhance the lives of its clients by providing integrated financial and personal services that are tailored to each client's unique objectives. Sierra Systems is responsive to our highly dynamic environment. Their dedication and technical expertise is instrumental in the delivery of our critical business projects."

CAM LOEPPKY
VICE PRESIDENT, CHIEF TECHNOLOGY OFFICER
ASSANTE CANADA

CDS LTD.

"Sierra Systems added a great deal of value to our implementation of the National Registration Database. Their advice was sound; their deliverables were top-quality; their commitment and dedication, tireless."

R.A. (BOB) STANLEY
GROUP PRODUCT MANAGER
CDS LTD.

Cost-effective Government Through eGovernment

Though the officeholders change, the core of government — its departments, agencies and civil servants — remains largely constant. For without continuity, no government could operate effectively or efficiently, and its electorate would not be well-served.

Increasingly, governments at all levels are seeking eGovernment solutions to provide services, information, forms and documents to constituents through cost-effective Internet portals. Similarly, Intranets are helping government employees reduce costs and boost their efficiency by making collaboration easier, and information gathering and sharing faster and more reliable than ever before.

Alberta Municipal Affairs

By focusing on collaboration with Alberta Municipal Associations, Municipalities, industry experts and the engineering community, Sierra Systems has engendered broad client satisfaction and laid the foundation for long-term working relationships in the delivery of the Municipal Infrastructure Management System (MIMS) initiative. Sierra Systems has successfully delivered eight related projects over a three-year period that leverage geographic information system technologies, a user-friendly interface, and practical infrastructure management tools for local administrators, public works and engineering personnel. The result has been a set of tools to improve decision-making on municipal assets such as roads, water, storm and sewer lines.

"The MIMS Spatial component . . . is invaluable when linked to the infrastructure information."

Glen Pitt, Project Technologist, Stewart Weir & Co. Ltd.

"MIMS is an excellent program in implementing past, present and future decisions of the village . . . [the] data helps in maintaining troubled areas, future growth of our village, and budgeting for projects."

Laura Zabrick, Village Clerk, Village of Andrew

Nova Scotia Housing Services

Housing Services, a division of the Nova Scotia Department of Community Services, leads housing initiatives in the province, overseeing more than 22,000 social housing units, administering third party agreements, developing and selling land, and administering home owner mortgage and repair programs.

Its strategic goals are to ensure access to safe, affordable and sustainable housing, while improving the effectiveness of its business processes and supporting information systems.

Housing Services engaged Sierra Systems to help select a replacement for an older property management system, taking into account provincial requirements for new technology, researching the availability of suitable solutions, and helping evaluate and select vendors. Sierra Systems continued to provide strategic assistance, such as Project Management Office and Business Change Management, throughout the implementation of the selected solution. The program received a silver award at the 2003 GTEC awards.

"With our confidence in Sierra Systems' business advice and IT expertise, Housing Services was able to make better decisions with greater ease. And not only was their advice invaluable, their Project Management Office and change management services ensured our implementation emerged as a tremendous success for everyone involved."

Jim Graham, Director, Operations Support, Housing Services, Nova Scotia Department of Community Services

For nearly 40 years, Sierra Systems has been working closely with local, state, provincial and federal governments across North America. We have become a trusted advisor and partner in delivering their IT and eGovernment solutions in such areas as taxation, client registries, natural resources, licensing, education, human resources, supply chains and procurement.

The eGovernment practice at Sierra Systems has a reputation for bringing new thinking to bear on the IT challenges facing governments, and a demonstrated ability to deliver successful implementations on time and on budget.

Parks Canada

How do you prevent Canada's natural, historical and cultural heritage from vanishing?

That was the problem facing Parks Canada, the federal government department that preserves Canada's heritage for the appreciation and enjoyment of present and future generations.

Crucial — and sometimes sketchy — information about designated historic sites was scattered over 13 different jurisdictions, plus different locations within Parks Canada. And funds for preserving historic sites are always in short supply.

Parks Canada started the Historic Places Initiative, creating a national register of historic places and bringing consistency to the way it defined and collected information on historic sites. With the program, Parks Canada tracks national historic sites from one central location, directs their preservation, identifies where incentives are needed to preserve sites, and gathers data to measure how successful their programs are.

Parks Canada engaged Sierra Systems to develop and implement two Internet/Intranet applications: the National Historic Sites Directorate (NHSD), a federal register of historic places, and the Canadian Register of Historic Places (CRHP), which receives, stores and manages photographs, documents and other records – including GIS information – from Federal, Provincial and Territorial registers.

Visit the Parks Canada site at http://www.pc.gc.ca/progs/lhn-nhs/index_E.asp

> **"Over the past two years, Sierra Systems has demonstrated a partnership and team player approach with the Parks team in the development of the National Historic Sites Directorate and the Canadian Register of Historic Places. The Sierra Systems team has provided excellent business and technical expertise resulting in a quality solution that has contributed to the successful launch of the Historic Places Initiative."**
>
> **Andrew Campbell**, Chief Information Officer, Parks Canada

JUSTICE

SAFER COMMUNITIES THROUGH IT SOLUTIONS

Criminal justice administrations across North America face an on-going dilemma. On the one hand, they face increasingly mobile and sophisticated criminals who pay no heed to jurisdictional boundaries. On the other hand, tightening budgets mean they must do more with less.

Since 1985, the Justice practice at Sierra Systems has been helping criminal justice administrators cope with the challenge through state-of-the-art IT solutions in law enforcement, court case management, integrated justice and corrections.

STATE OF CONNECTICUT

The Offender Based Tracking System (OBTS) is the "king pin" in the State of Connecticut's integrated criminal justice system. OBTS interfaces with 15 criminal justice information systems that support 8 agencies within the Executive and Judicial Branches of government. Packages of operational justice and law enforcement data are automatically sent in real time to OBTS when triggered by pre-determined events in the criminal justice process. The event packages, or messages, are transformed and integrated into a data repository that enables inquiry, notification and administrative monitoring functions.

Sierra Systems was able to zero-in on the most essential system components to propose a system that met the state's requirements, schedule and budget. This was possible because of our long history of successful justice integration projects and our knowledge of current information technologies.

The system, delivered in two phases over 24 months, capitalized on our expertise with XML messaging and IBM WebsphereMQ middleware. OBTS enables timely, accurate sharing of critical criminal justice information among Connecticut law enforcement, prosecutors, public defenders, the courts, corrections, probation and parole officials, while conforming to legal requirements for confidentiality and nondisclosure.

"Our expectations for this challenging project were exceeded. Sierra Systems immediately perceived and understood the requirements for the State of Connecticut's Offender Based Tracking System (OBTS). Sierra Systems went beyond compliance with specifications and provided many suggestions which were incorporated into the design yielding a better and more efficient OBTS."

THERON A. "TERRY" SCHNURE, OBTS PROJECT DIRECTOR,
STATE OF CONNECTICUT, OFFICE OF POLICY AND MANAGEMENT

Our approach is collaborative, with the goal of understanding the needs of all stakeholders so that, rather than offering boilerplate solutions, we can implement the most appropriate technology for each jurisdiction, budget and IT environment.

At Sierra Systems, we believe in the ability of IT to help build safer communities and secure, more efficient working conditions within diverse justice jurisdictions.

Tarrant County, Texas

Since its beginnings as an army outpost protecting settlers, Tarrant County, one of the fastest growing urban counties in the U.S., has stayed at the frontier's leading edge. From its north central Texas county seat in Fort Worth, the Tarrant County administration provides services to a population of 1.4 million.

To better support citizens, police and attorneys, the County set out in 2001 to create an Integrated Criminal Justice Information System. In November 2002, Tarrant County selected Sierra Systems to design, develop and implement their anchor product, the District Attorney Electronic Case Filing System (ECFS). The project went live on time and on budget in July 2003. Developed using .Net technology, PKI security infrastructure and custom Web portals, ECFS enables 500 concurrent users to enter more than 500 data transactions and 10,000 read-only transactions each day.

During this period, Sierra Systems was also asked to rewrite the County's Mug Shot system to integrate it closely with ECFS and provide law enforcement agencies with detailed reports that include up-to-date color mug shots and criminal histories/photo line-ups in a PDF format. This part of the solution went live in August 2003.

"We're saving the cost of all the paper that we eliminated, and then we're also saving the time spent by a police detective, who needed to bring the case documents over in person, wait for a prosecution decision, and drive back to work."

Mark O'Neal, Project Manager, Tarrant County IT Department

"On December 2nd, 2003 the Royal Canadian Mounted Police launched its first operational site for its new records management system application at Interpol. This is a significant step in a world sieged with international security concerns and criminal activities. As such, it is fitting that Interpol would be our first installation site. None of this would have been possible without the significant contribution of Sierra Systems."

P. D. Martin, Chief Information Officer, Royal Canadian Mounted Police

[illegible]

The pressures of globalization mean that every large enterprise today is charged with solving daunting realities. They are faced with finding new efficiencies, creating better approaches to managing customers, and analyzing diverse operations and workforces across many different countries.

As a leading implementer of PeopleSoft and Oracle applications, Sierra Systems can streamline administrative systems, reduce costs and make better, more profitable use of business

COMMUNITY TRANSIT

Community Transit, a public sector organization in Everett, Washington, has about 1,000 active and retired employees, and was using PeopleSoft 7.5 HRMS to manage payroll, benefits, recruitment and other human resources functions.

To achieve better employee scheduling, leave and pension management, Community Transit opted to upgrade to PeopleSoft 8.8, engaging Sierra Systems to customize the upgrade and provide user documentation.

The primary customization involved code changes and a custom SQR to manage employee schedules and time entry. The second major customization manages pension plan deductions and reporting, consistent with requirements of the state Public Employees Retirement System. Overall, Sierra Systems analyzed, tested or modified more than 800 online objects and batch processes for compatibility with the upgrade. Thanks to our lengthy history with PeopleSoft products, and despite a tight four-month schedule, our team completed the project on time and on budget.

SIMON FRASER UNIVERSITY

Twenty years ago, Simon Fraser University (SFU) had a custom-written, state-of-the-art, administrative information system. But as the university grew to its current size of three campuses, over 22,000 students and 82,000 alumni, this legacy system had trouble keeping up.

Even with extensive modifications it could not provide the flexible, efficient and responsive, student-centered, web-based system that SFU now needed.

That's why in 2002 SFU engaged Sierra Systems to provide technical resources as well as project management for their new PeopleSoft implementation. The Sierra Systems-led team was able to deploy the complex PeopleSoft Student Administration Solution in just over a year and a half. Administrative staff, faculty and students are now much more self-sufficient, mountains of paperwork have been eliminated, and line-ups are much shorter. Sierra Systems is now assisting SFU with their PeopleSoft Human Resources/Payroll and Financials implementations, which will be integrated with Student Administration during 2004.

intelligence. We can also help implement best-practices Customer Relationship Management programs to increase satisfaction and develop a greater "share of customer" by discovering who a company's best customers are and what they most want from the company.

And, as always, Sierra Systems does more than getting new systems up and running — we also provide all the knowledge, training and other support needed to run them.

MAGNA INTERNATIONAL

Magna International is a leading global supplier of technologically advanced automotive systems, components and complete modules. It has over 70,000 employees worldwide, with thousands of them in Canada and the U.S. They first engaged Sierra Systems in 2001 to implement PeopleSoft's Pension Administration — a project that required extensive changes to the application to comply with Canadian Pension laws.

Based on that success, Magna International again selected Sierra Systems for their PeopleSoft 8.3 HRMS upgrade in 2002.

Because of our accomplishments and ability to bring projects in on time and on budget, Sierra Systems has built a solid partnership with Magna, leading them to choose us again when they wanted to provide additional HR services to their customers. Magna is an excellent example of the way Sierra Systems builds long-term relationships with clients by becoming their trusted IT advisor.

"Magna is continually looking for new ways to improve our ability to provide 'A Better Product for a Better Price.' To this end, the companies we engage to support us in our efforts become critically important. Sierra Systems consistently demonstrates integrity by telling us what they can and will do, and then simply doing it."

CAMERON HASTINGS, PRESIDENT, MAGNA SERVICES

HEALTH

SETTING STANDARDS FOR eHEALTH

While new technologies increase the effectiveness of healthcare, they may also increase its costs. At Sierra Systems, we have demonstrated that IT solutions can maintain a balance between clinical healthcare and costs by improving the way healthcare is administered and the way health information is managed.

Our Health practice consults closely with hospitals and other healthcare providers, focusing on integrating clinical and administrative information systems so they can deliver and monitor health services more efficiently. To date, Sierra Systems has successfully implemented

CAPITAL HEALTH

Capital Health, Edmonton, Alberta, is one of Canada's first and largest integrated health regions. When Capital Health wanted to develop an Electronic Health Record (EHR) system, they chose Central Station, a Sierra Systems-led consortium that includes Orion Systems, Quovadx Inc., Oracle Corporation and Hewlett-Packard.

In April 2004, the EHR will be available to ten pilot sites after which it will roll out in stages throughout Capital Health. This first phase will give clinical staff access to patient lists, and histories with Capital Health, plus basic demographics, lab test results and a variety of diagnostic and operating room reports and discharge summaries. It also will provide access to the provincial Pharmaceutical Information Network (PIN).

By linking patient information systems, the EHR allows Capital Health to provide clinicians with a single, efficient, integrated view of patient health information.

"The Central Station consortium not only met our functional, technical and timeline requirements, it showed an excellent strategic fit for the future."

DONNA STRATING, CHIEF INFORMATION OFFICER, CAPITAL HEALTH

solutions in such areas as electronic health records, biosurveillance, health collaboratives, enterprise health registries, health information systems planning, TeleHealth, HL7 health data exchange and, in the U.S., HIPAA (Health Insurance Portability and Accountability Act) remediation.

Because eHealth is an emerging field, we've also made a point of taking an active role in developing standards with top Canadian and U.S. health organizations concerned with integrated health services.

District of Columbia Department of Health

The DC Department of Health (DOH) is responsible for implementing a National Electronic Disease Surveillance System (NEDSS)/Public Health Information Network (PHIN) solution for the District of Columbia, consistent with the nationwide PHIN vision as defined by the Centers for Disease Control and Prevention (CDC). Since early 2002, Sierra Systems has assisted the Bureau of Epidemiology and Health Risk Assessment with numerous tasks associated with this major effort.

A key element of our work on this project has been assessing the ability and readiness of external organizations, including the major hospitals within the District, to provide electronic data on communicable disease cases and possible evidence of bioterrorism activity. Sierra Systems consultants have helped negotiate agreements and carry out technical work to facilitate inter-organizational electronic data exchange. As part of this process, Sierra Systems has helped explain and promote the NEDSS/PHIN program to stakeholders within the DOH and other organizations.

Sierra Systems has also coordinated work completed by ESRI Corporation to determine gaps in DOH's capacity to use geo-spatial technologies for collecting, analyzing and disseminating statistical data based on address ranges in the District.

As the work has progressed in developing NEDSS/PHIN systems, Sierra Systems has prepared a test plan for the new system, and migrated data into it from the legacy systems it will replace.

> **"The NEDSS/PHIN program is a major step forward in the nation's ability to track communicable diseases and respond to bioterrorism threats. The Washington Automated Disease Surveillance System (WADSS) we are building here in the nation's capital will be a model for how such systems should operate. Sierra Systems has made a major contribution to our progress on this program to date. We look forward to continuing to work with Sierra Systems to ensure that the WADSS is successfully implemented, maintained and enhanced."**
>
> **Dr. John Davies-Cole**, Chief, Bureau of Epidemiology and Health Risk Assessment
> DC Department of Health

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MANAGEMENT'S DISCUSSION & ANALYSIS

Vision, Core Business and Strategy

Sierra Systems Group Inc. (the "Company") is a growing organization, delivering high quality information technology solutions that enhance the competitive position of our clients. We have a single core business, providing consulting and systems integration services. Our organizational model is to provide these services through geographically dispersed branches across North America. This model permits us to grow while staying close to the client, ensuring that authority and responsibility are delegated to the client-focused operational teams that deliver our services.

Our strategy is to grow by:

- Maintaining and expanding a deep functional knowledge of our clients' business in focused market segments. These market segments are called Specialty Practices.
- Maintaining service excellence for strong client retention.
- Maintaining a long-term commitment to employees for high employee retention.
- Deepening our market penetration in existing locations, expanding current locations with key cornerstone projects (both organic growth) and strategic acquisitions.
- Combating the increasing commoditization (and therefore rate contraction) of development work, by leveraging Canadian development resources within the Company ("nearshore") and offshore resources of strategic partners ("offshore").

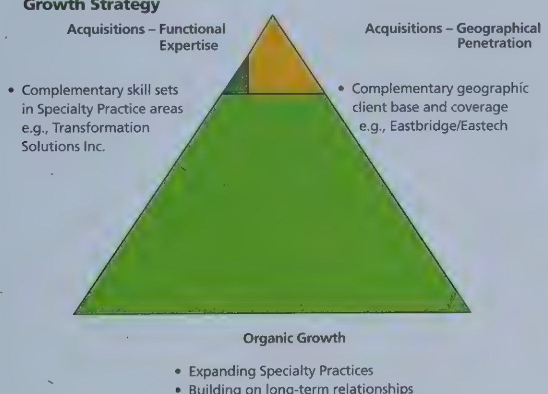
2003 Targets and Results

Our fiscal 2003 targets and outcomes are:

Revenue growth	Increased 16%
Operating income	Increased 115%

Significant Transactions

Growth Strategy



Sierra Systems' strategy includes selective acquisitions and, as described in notes 3 and 15 of the financial statements, the Company completed two acquisitions in the fiscal year 2002 and has announced its intent to complete another in the first quarter of fiscal 2004.

Transformation Solutions Inc. (TSI) was a small management consulting firm with 14 resources based in Victoria, British Columbia. TSI enhanced functional knowledge in two Specialty Practices — Health and Enterprise Solutions.

INSI strategic technologies inc. (INSI) was acquired in June of fiscal 2002. The 65 employees principally formed the new Sierra Systems' location in Winnipeg. INSI expanded our geographic presence and augmented our existing Financial Services and Insurance and Telecommunications Specialty Practices. The proposed transaction in Halifax of Eastbridge Consulting Inc. and its subsidiary, Eastech Advanced Development Inc., would be of a similar nature — strengthening market presence and key Specialty Practices.

It is our policy to firmly integrate acquisitions into the business, with no separate enduring financial targets post-acquisition.

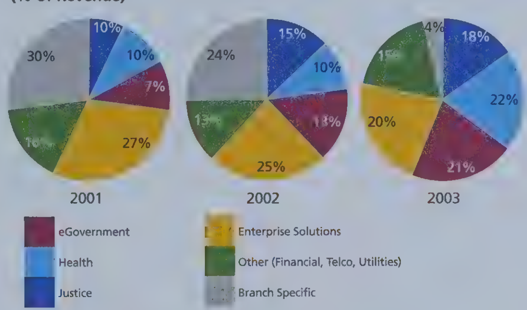
Another significant transaction is the staggered divestiture of the Company's interest in Donna Cona II Inc. (DCII). In conjunction with finalizing a four year sub-contracting agreement (two years, with two possible one year extensions), the Company has agreed to divest itself of its 49% interest in DCII, for a nominal value over the same period. The accounting treatment of this transaction is described in note 11 of the financial statements. It recognizes that these transactions are linked and assigns a portion of the value of the sub-contracting agreement to the divestiture. This assigned value is an intangible asset, amortized over the life of the contract. Also, effective in the fourth quarter of fiscal 2003, the accounting treatment of DCII is changed from proportionate consolidation to equity accounting.

Market Segmentation

Specialty Practices

Sierra Systems has seven Specialty Practices – Justice, Health, Electronic Government, Enterprise Solutions, Telecommunications, Utilities, and Financial Services and Insurance. In these areas, the Company derives competitive advantage from deep functional knowledge of the client's area of business. The medium-term strategy is to focus on the first four practices and to leverage these practices across all branches.

Specialty Practices
(% of Revenue)



In late fiscal 2000, the Company determined that the government sector practices were the focus for the medium-term and there has been substantial growth in these practices since that time, generating over 60% of revenue in fiscal 2003. The following highlights the growth practices.

Justice – The Justice field can be divided into police, prosecution/public defense, courts and correctional facilities. Sierra Systems' focus in fiscal 2003 was in police and courts records management systems. Revenue grew 41% to $27.4 million from fiscal 2002. The successful conclusion of the Offender Based Tracking System (OBTS) for the State of Connecticut was a factor in this increase.

Health – Revenue in Health grew over 100% to $32.3 million from $13.7 million in fiscal 2002. This very significant increase was largely a result of one project – the HIPAA remediation project for the Department of Mental Health (DMH) in Los Angeles. HIPAA is the Health Insurance Portability and Accountability Act, requiring electronic data interchange of prescribed transactions. Compliance with this Act provides a significant business challenge to all health providers and insurers in the United States. This project was very significant in size and in the short time frame in which the project was delivered. The revenue from this project in fiscal 2003 was CDN$15.0 million.

The remainder of Health practice revenue in 2003 was focused at the provincial/county/state level, mainly in the area of health records management systems.

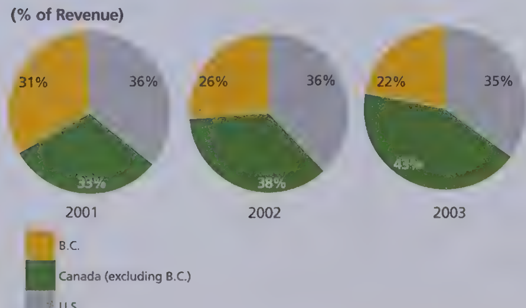
Electronic Government – All levels of government are challenged with connecting to their citizens and businesses and delivering services online. The Sierra Systems' eGovernment practice provides a significant diversity of services to these clients. Revenue in this practice increased again significantly in 2003 to $32.3 million. The increase of over 80% was partly a result of branch-specific revenue being identified within the practice area as the practice continues to consolidate and provide focus.

Enterprise Solutions – This practice has been a mainstay of Sierra Systems since the mid-1990s. The focus is on enterprise-wide applications in the human resources and financial management areas, but also includes supply chain management systems. The implementation of PeopleSoft applications was the foundation which now includes Oracle and others. This practice is mature and produced approximately a quarter of the Company's revenue for the fiscal years ending 2002. The apparent decline in fiscal 2003 of 7% to $29.8 million, is more a function of the determination of which Specialty Practice prevails where both are relevant – e.g., a payroll system for the government.

Geographic

Sierra Systems' strategy is to diversify from what has been its traditional client base of British Columbia. The medium-term strategy is to drive deeper market penetration into existing geographic locations and to augment further locations with Specialty Practice projects or acquisitions. In fiscal 2003, we experienced growth in Ontario and expansion into the Prairies, the latter due to the acquisition of our Winnipeg branch. Revenue in the United States in U.S. dollars exceeded the Company's growth.

Geography
(% of Revenue)

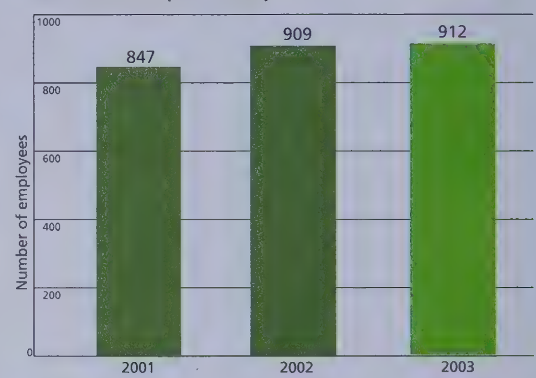


Product Sales

Product sales are nominal at 2% of total revenue. Sierra Systems does not build and sell its own licensed products. Therefore, product sales are a result of the resale of third-party products, usually as part of the delivery of an integrated systems solution. In fiscal 2003 DCII generated 37% of product sales revenue (2002 - 73%). With the change in accounting treatment of DCII, product sales are expected to decline to about 1% of total revenue in fiscal 2004. The margin on product sales increased in fiscal 2003 to 18% from 14% in the prior year.

Operational Capability

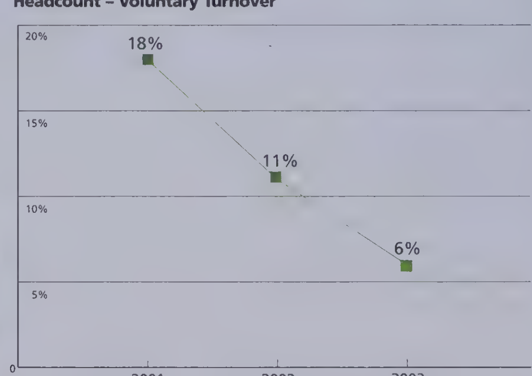
Total Headcount (at Year End)



Sierra Systems' primary operational capability is our employees. We believe that the best return on investment will be derived from a long-term commitment to this asset base. For quality control purposes, it is essential to have experienced, capable resources, trained in our methodologies and standards. This training requires a significant investment and it is necessary to constantly upgrade staff skills. Our strategy, therefore, is to maintain this asset base during periods of lower demand to ensure that the capacity is in place for assured quality delivery. Total headcount was stable at year-end, but average billable headcount was higher during fiscal 2003 due to the acquisition of INSI. Available hours increased by 3% in line with billable headcount.

The effectiveness of our employee retention tactics can be measured by turnover. Sierra Systems' experience, as shown in the chart below, reflects continued improvement. The current level of turnover would be considered ideal.

Headcount – Voluntary Turnover

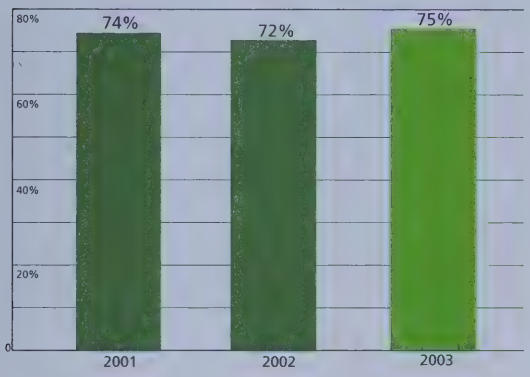


A key performance driver is utilization. That is, the ratio of hours charged to clients over available hours, expressed as a percentage. The trend of this measure gives an indication of under-utilized capacity. Simply put, compensation costs are essentially fixed. With higher utilization, higher revenue can be derived from the same employee base, leading to improved gross margins.

Other factors can have an impact on this correlation, such as fixed price overruns. In that case, employees may be

working additional hours on a project with no increase in revenue. A further challenge to this correlation may be the geographic distribution of headcount. Our organizational model is based on employees living and working in the same geographic region as the clients they service. Although there are opportunities to redeploy these resources to other locations, the Company does not operate a "road warrior" model of resources traveling for extended periods of time.

Utilization



The improvement in the ratio to 75% from 72% is a significant increase. Small movements in this ratio derive significant increases in billable hours. It is our expectation that fiscal 2004 will see similar levels of utilization. Some changes in the organizational structure of our U.S. operations have positioned resources more closely to expected demand. We expect continued development of our nearshore service offering to provide additional markets to our Canadian development capability.

Subcontractors provide a significant extension of Sierra Systems' operational capacity. The Company will sometimes augment its available resource pool with specialized skills or to build some flexibility in the resource pool to respond to peaks in delivery requirements. The increase in services revenue in fiscal 2003 was driven off the higher use of external consultants in addition to higher utilization. The cost of external consultants was significantly higher at about 21% of total compensation costs compared to 15% in fiscal 2002. This reflects a change in the business model to a certain degree but also the impact of the DMH project where a rapid ramp-up was required and specialized partnering was essential to the solution.

There are also certain situations where the most cost effective solution for our client is to deliver some of the solution using offshore development resources. Although not a significant element of our business to date, we expect that in the coming years this will increase. Strategic vendor partners will be the source of the capability.

Operational Results

Services revenue, our primary business line, increased 15% as compared to 2002 due in large part to the DMH project and also the acquisition of INSI. As acquisitions are strongly integrated, it is usually difficult for us to quantify non-organic growth. In the case of INSI, however, the Winnipeg operation was a new geography for Sierra Systems and thus we can estimate non-organic growth of $6.3 million. This would imply organic growth of approximately 10% in services revenue.

Compensation costs are generally about 75% of total operating costs. These costs include salaries, incentive compensation, benefits and vacation pay of our billable and operational support headcount. Sierra Systems has only a nominal dedicated sales force. Management consults, sells and delivers contract assignments. The vacation pay is an accrual made as employees are working for the accrued vacation hours, which is used to offset the cost base when vacation days are taken. As the employee base is generally maintained despite lower utilization, compensation costs tend to be fixed in nature.

In fiscal 2003, compensation costs increased 13% compared to 2002. Two thirds of the increase related to the cost of external consultants increasing 60% to $23.1 million. A quarter of the increase in compensation costs was a result of higher salaries. Salaries increased by 4% due to the higher average billable headcount. Increases in base salaries of 2% were offset by the lower U.S. dollar conversion rate in the fiscal year. A significant Company performance driver is compensation costs as a percentage of services revenue. This ratio was stronger in 2003 due to stronger utilization.

As a percentage of Services Revenue

	2001	2002	2003
Compensation costs	72	75	74
Other costs	9	7	7
Gross margin	19	18	20
General and administration	14	13	13

Other costs are direct costs such as education, non-recoverable travel, promotion and recruitment costs. These tend to be more variable in nature. Again a key performance driver is the ratio of these costs expressed as a percentage of services revenue. This stabilized in 2002 and was consistent at 7% in fiscal 2003. Spending increased by 4%. An increase in travel costs was offset by lower recruitment and education costs. The higher travel costs are reflective of the sales activity of the nearshore strategy.

General and administration costs consist of branch indirect overhead and administrative costs such as rent, office salaries, telephone and stationery. Branch costs account for 70% of the total general and administration costs. Corporate general and administration costs, which mainly comprise centralized financial and support staff, public company costs, and audit and legal fees, account for the remainder. Rent and office salaries each represent approximately one third of general and administration costs. Therefore, the nature of these costs tends to be more fixed in nature. The key performance measure is the ratio to services revenue, consistent in fiscal 2003 at 13%.

General and administration costs increased by 19% largely due to higher rent costs and salaries. Half of the increase in rent costs was due to exit costs of $0.4 million recorded in the fourth quarter of fiscal 2003 relating to the sub-lease of excess space in our California location. This is another step in the organizational changes in our U.S. operating structure. The remainder relates to Winnipeg and three other branches renewing leased space due to expired leases. Salary increases are due to headcount increases.

The nature of the capital employed is discussed under Financial Capability. The amortization policy of the capital assets is described in note 2 of the financial statements. The method of the amortization policy was changed for fiscal 2003 to a straight-line basis, with some adjustments to the estimates of useful life. This change did not have a material effect on the financial statements.

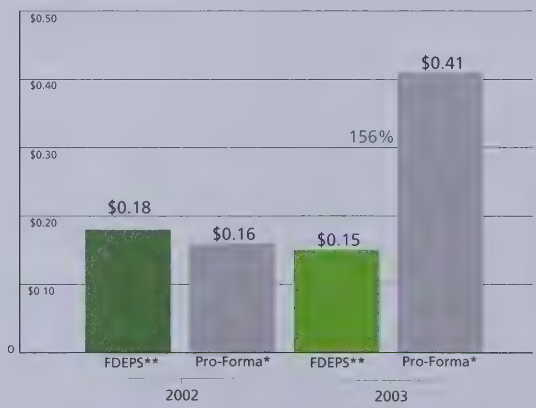
Operating income increased by 115% to $6.6 million in 2003.

Non-operating Items

The foreign exchange gain or loss arises primarily from the unrealized gain of revaluing the investment in working capital denominated in U.S. dollars. This translation adjustment flows through the earnings statement (as opposed to a separate component of shareholders' equity) because to date, the U.S. operations have been considered an integrated business for the purposes of Canadian GAAP. A number of factors, including the two year neutral cash flow position of the U.S. operations, support a change in the accounting treatment beginning in quarter one of fiscal 2004. These operations will be considered self-sustaining and the translation adjustment will be recorded as a separate component of shareholders' equity. The Company's exposure to fluctuations in the U.S. dollar is discussed under Business Risks.

In fiscal 2003 there was a significant foreign exchange loss of $2.4 million. As there is no tax deduction for this accounting item, the effect on the earnings per share is material. The following chart on earnings per share shows a pro-forma of the earnings per share, after tax, without this foreign currency translation adjustment. The Company has delivered a strong performance without this accounting translation adjustment.

Earnings Per Share



* Pro-forma excluding foreign currency translation adjustment (non-GAAP measure)
** Fully diluted earnings per share (GAAP measure)

Interest is generated from the investment of excess funds in accordance with a conservative investment policy, the primary objective of which is capital maintenance.

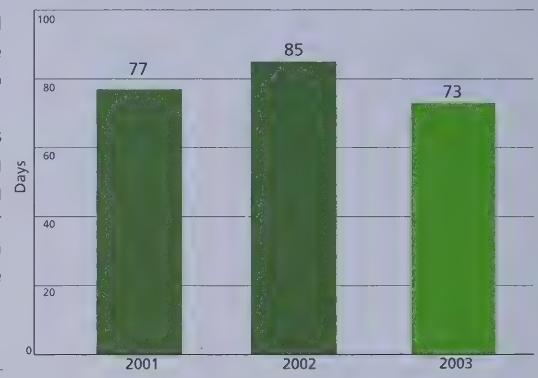
The effective tax rate on earnings before income taxes was 67%. Note 7 to the financial statements outlines the reasons for the difference from the expected effective tax rate of 38%. In addition, this note describes significant tax losses that have been recorded as an asset on the balance sheet on the basis that the Company will generate sufficient profits in the U.S. to utilize these losses. The effective tax rate becomes sensitive when operating income falls below $1 million and if the U.S. operations fail to breakeven. Outside of those parameters, the effective rate should be in the range of 42 – 44%.

Financial Capability

Sierra Systems' need for capital is for working capital and for acquisitions. In fiscal 2003 net cash flow from operations was $2.3 million. This is somewhat distorted by the $1.6 million source of funds from long-term accounts receivable, which should be viewed in conjunction with the project financing described below. Excluding this item, cash flow from operations is $0.8 million.

Material areas of working capital are accounts receivable and work in progress. The key performance measure is average days sales in trade accounts receivable calculated on quarterly trailing revenue. There was significant improvement in this measure in fiscal 2003 compared to 2002. This meant there was no further investment required in year end accounts receivable despite higher revenue. This measure improved to 73 days and is expected to be in this range in fiscal 2004. The Company has no provision for doubtful accounts. This is consistent with its historical experience and with its client profile. The one exception to this experience was in fiscal 2000.

Aged Days (at Year End)



The use of cash for working capital arose from a $4.5 million increase in work in progress (WIP). WIP represents services provided that have not yet been billed and is valued at estimated realizable value. It is a function of large deliverable-based contracts. We anticipate that it will continue trending upward as the focus of the Company, particularly in the U.S., moves to larger fixed price, deliverable-based projects.

The Company's long-term debt has now been extinguished. It related to project financing and was offset by long-term receivables. In fiscal 2002, the Company elected to self-finance the remainder of the project to reduce financing costs and thus the cash flow from the related receivable exceeded the net financing in fiscal 2003.

Sierra Systems' requirement for capital assets is restricted to personal computers, network applications and servers supporting our own employees, and furniture and fixtures for leased space. In fiscal 2003, the investment in capital assets was higher than fiscal 2002 at $3.8 million as a result of $1.8 million of expenditures to support the DMH contract. Sustaining capital expenditures for the operations would be expected to be in the range of $3.0 – 3.5 million.

As described in note 6 of the financial statements, the Company has unused operating bank lines of credit of CDN $7 million and US$0.5 million with interest charged at bank prime rates. This is currently a low cost source of capital. At the balance sheet date of September 30, 2003, the net cash and cash equivalents was $3.8 million. Cash and cash equivalents consist of cash on deposit and highly liquid short-term interest bearing securities with terms of three months or less. Eligible investments are government-issued securities or indebtedness of corporations with a debt rating of A or R-1 low.

The proposed acquisition in Halifax described in note 15 will require a cash component of approximately $3.6 million.

The Company believes that its cash resources, together with the cash provided by future operations and available borrowings under its line of credit, will be sufficient to meet its working capital needs, its capital expenditures and acquisitions.

Business Risks

Sierra Systems is subject to various risks and uncertainties that can cause volatility in its earnings. The Company's operations are managed to deal with risks that are common to most companies, such as the risks of severe economic downturn, competition, currency fluctuations, and the more industry-specific risks such as the hiring and retention of staff and fixed price contract overruns.

A severe economic downturn has been seen to reduce capital spending by governments and corporations. Capital spending is generally discretionary and, although the implementation of technological solutions to enhance business competitiveness and government efficiency and effectiveness is generally considered a priority, spending on such initiatives can still be severely curtailed. Two elements of our strategy serve to mitigate this risk. The deep functional knowledge in our Specialty Practices helps us to better predict market trends. For example, our decision to adjust our medium-term strategy to focus on four practices was a result of our extensive involvement in the industry sectors of health, justice, utilities and telecommunications. Another factor is our geographically diverse organizational model. This helps to mitigate the full impact of an economic downturn. In fiscal 2003, the U.S. operations and several areas in Canada keenly felt the economic slowdown, while Sierra Systems continued to experience strong growth in Ontario.

Fixed price contracts are an important element of Sierra Systems' business. In entering into such contracts, the Company assumes certain risks in relation to its ability to deliver projects profitably. To reduce risk, the Company has in place a Corporate Risk Management team to review project bids, contract negotiations and ongoing project performance, and to initiate and complete project audits as required.

Sierra Systems' growth and continued success depends in large part on its ability to attract, retain, train and motivate highly skilled personnel. There can be significant competition for such employees and Sierra Systems has developed comprehensive People Programs designed to ensure its continued competitiveness. The current market environment has also improved retention.

The IT services industry is highly competitive and is characterized by rapid technological change, shifting client preferences and new product developments. The Company has a Technology Council of Technology Directors spread throughout the organization. It is the Council's mandate to review technological trends and position the Company to adjust its tactics accordingly.

The Company has operations in the U.S. and therefore has exposure to fluctuations in the U.S. dollar. Provided the U.S. operations remain self-sustaining, the translation adjustment should be recorded as a separate component of shareholders' equity. If there is a material change in circumstances and the operations require the consistent support of the Canadian entity, this accounting treatment could revert back to that of integrated operations. Revenues and costs are still converted from U.S. dollars for reporting purposes. Fiscal 2004 targets were established using an assumed rate of $1.33. Revenue reported in Canadian dollars is therefore sensitive by approximately 1% for every $0.03 move in the U.S. rate. Costs in U.S. dollars are expected to offset revenues to the largest extent in the coming year, so the sensitivity to the earnings per share is much less. It would require in the range of a $0.20 move in the rate to cause a $0.01 change in the earnings per share.

Our business model is to sustain consistent long-term profitable growth. The Company contracts with its clients on an engagement-by-engagement basis, which can lead to short-term fluctuations in revenue. This model is subject to a high degree of quarterly variation, which is not necessarily predictable. There may be reductions in operating results for a particular quarter and could result in losses for such quarter. Our financial objectives are set annually and we intend to adjust them only if we see business trends in the interim that indicate a material variation.

Outlook

Targeted revenue for fiscal 2004 is $155 million with associated earnings per share of $0.60. This is based on a plan for services revenue from current operations to be in the region of $145 million and for acquisitions and product re-sales to generate the remainder. This view is based on information known today about market conditions and the demand for IT services and excludes the impact of large new contracts contributing more than $7 million per year in revenue. Margin improvement is a critical financial objective and will be realized through the restructuring in the U.S. operations and also in the reduction of the use of external consultants.

Services revenue in the fiscal 2004 plan is affected by two key factors. The change in accounting treatment of our interest in DCII will reduce the revenue base by approximately $3 million. The associated earnings per share effect is nominal (approximately $0.01). The second factor is the strengthening of the Canadian dollar. This outlook assumes an average exchange rate for the fiscal year of $1.33, much lower than the average rate in fiscal 2003 of $1.46. This gives rise to a reduction in the revenue base of a further $4 million.

From the perspective of the timing of material projects completing, two projects concluded their significant development phase in the fourth quarter of fiscal 2003 – the OBTS and DMH projects. In Connecticut we have leveraged off the successful implementation of that project to provide continuing services to that client. There is a reduction in revenue but it is in a range that is normal to our business. The DMH project, however, is different. As noted, this project was very significant in size, with a material revenue stream in fiscal 2003. Although there will be elements of the project delivered in fiscal 2004 and ongoing work with this client, it will be less than a third of the fiscal 2003 revenue stream.

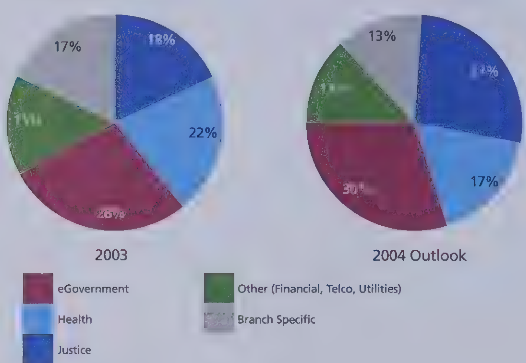
Of the services revenue projected, approximately 60% is considered committed. Committed revenue is revenue that management assesses as more than 90% probable. For reference, the percentage of committed revenue to the $148 million delivered in fiscal 2003 was also approximately 60%.

The Company strategy with respect to Specialty Practices continues, with the focus on Health, Justice and Electronic Government continuing to increase the share these practices contribute to total revenue. In fiscal 2003 these three practices generated in the region of two thirds of Sierra Systems' revenue. In fiscal 2004 we anticipate that this will increase again to 70%. The distribution, however, is likely to alter. Justice is expected to be over a quarter of fiscal 2004 business. Health will contract slightly as a result of the conclusion of the DMH contract.

The Enterprise Solutions practice remains a cornerstone of our business. As the practice continues to evolve to respond to market needs, there is an increased focus on the business consulting and business intelligence tools that will assist clients to drive out the value proposition for their ERP investment. As such, we increasingly see that practice underscoring the functional strength of our industry verticals.

To appropriately report on these trends, the Company will report in fiscal 2004 onward the vertical and horizontal practices separately. For clarity, the industry Specialty Practices for fiscal 2003 would have been reported in the following manner with the outlook for 2004.

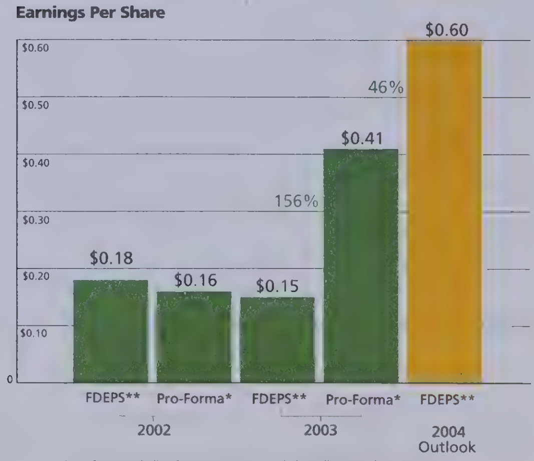
Specialty Practices
(% of Revenue)



Looking across the entire base of business, i.e., across all our industry verticals (including the Specialty Practices) the Enterprise Solutions practice will keep pace with the growth of the Company and in fiscal 2004 will generate close to $40 million of business.

From a geographic perspective, we anticipate that the profile will remain fairly consistent with fiscal 2003, although there will be a slight fall off in the ratio of U.S. business to our overall business. In fiscal 2004 our focus in the U.S. is on increasing operational earnings as a result of the restructuring of that business in fiscal 2003.

Earnings Per Share



* Pro-forma excluding foreign currency translation adjustment (non-GAAP measure)
** Fully diluted earnings per share (GAAP measure)

From a profitability standpoint, we intend to continue our drive to leverage the bottom line. The pro-forma of the earnings per share eliminates the impact of the foreign currency translation adjustment. Comparing this pro-forma for fiscal 2003, we will have delivered an EPS growth of 150% compared to the pro-forma for fiscal 2002. In fiscal 2004, our objective is further sequential growth on the EPS of 50%.

In fiscal 2002 and 2003 we stabilized the ratios of other costs and general and administration costs to services revenue. We expect these ratios to remain in line within the 7% and 13 to 14% range respectively. The key to future leverage rests in the ratio of compensation costs to services revenue. Fiscal 2003 has seen some improvement from fiscal 2002, and our objective is to repeat a similar level of improvement in fiscal 2004.

From an operational capability perspective, we expect to reduce our reliance on external consultants. The ratio of these costs to our total compensation costs had reached a peak in the third quarter of 23%. The norm for our business model would be 15 to 20%. We expect that fiscal 2004 will return to these ratios. Headcount will increase marginally to provide additional capacity and utilization (which increased significantly in fiscal 2003) will remain fairly stable.

Sierra Systems continues its search for attractive acquisition opportunities that enhance its Specialty Practices or Branch operations. Our primary focus is directed toward United States-based organizations. The Company will generally finance such acquisitions from cash, but would normally include a component of shares, the latter to provide incentive to the acquired management resources.

MANAGEMENT'S RESPONSIBILITY

December 3, 2003

The consolidated financial statements of Sierra Systems Group Inc. have been prepared by management and approved by the Board of Directors of the Company. Management is responsible for the preparation and presentation of the information contained in the consolidated financial statements and other sections of the annual report. The Company maintains appropriate systems of internal control, policies and procedures which provide management with reasonable assurance that assets are safeguarded and that financial records are reliable and form a proper basis for the preparation of financial statements.

The Company's independent auditors, PricewaterhouseCoopers LLP, have been appointed by the shareholders to express their professional opinion on the fairness of the consolidated financial statements. Their report is included below.

The Board of Directors ensures that management fulfills its responsibilities for financial reporting and internal control through an Audit Committee which is composed entirely of outside directors. This committee reviews the consolidated financial statements and Management's Discussion and Analysis and reports to the Board of Directors. The auditors have full and direct access to the Audit Committee.

GRANT R. GISEL
Chairman, President and Chief Executive Officer

CAROLINE J. [illegible]
Vice President and Chief Financial Officer

AUDITORS' REPORT

To the Shareholders of Sierra Systems Group Inc.

We have audited the consolidated balance sheets of **Sierra Systems Group Inc.** as at September 30, 2003 and 2002 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles. As required by the British Columbia Company Act, we report that, in our opinion, these principles have been applied on a consistent basis.

PricewaterhouseCoopers LLP

Chartered Accountants
Vancouver, BC
November 24, 2003

CONSOLIDATED BALANCE SHEETS

AS AT SEPTEMBER 30, 2003 AND 2002

(IN THOUSANDS OF CANADIAN DOLLARS)	2003	2002
ASSETS		
Current assets		
Cash and cash equivalents	$ 4 023	$ 10 803
Accounts receivable, including work-in-progress	38 592	33 982
Current portion of long-term accounts receivable (note 4)	—	1 558
Income taxes recoverable	—	890
Prepaid expenses	2 171	2 306
	44 786	49 539
Intangible asset (note 11)	592	—
Property and equipment (note 5)	10 700	10 265
Future income taxes (note 7)	6 345	3 829
Goodwill	19 312	19 312
	$ 81 735	$ 82 945
LIABILITIES		
Current liabilities		
Bank indebtedness (note 6)	$ 230	$ 4 488
Accounts payable and accrued liabilities	14 421	12 770
Deferred revenue	974	2 465
Project financing (note 4)	—	995
Current portion of capital lease obligation	45	136
Income taxes payable	304	—
Future income taxes (note 7)	2 390	465
	18 364	21 319
Future income taxes (note 7)	440	183
Capital lease obligation	—	54
	18 804	21 556
SHAREHOLDERS' EQUITY		
Capital stock (note 8)	41 320	41 147
Retained earnings	21 611	20 242
	62 931	61 389
	$ 81 735	$ 82 945

Commitments and contingencies (note 9)

Subsequent event (note 15)

Approved by the Board of Directors

GRANT R. GISEL
Director

FREDERICK R. WRIGHT
Director

Consolidated Statements of Retained Earnings

For the years ended September 30, 2003 and 2002

(In thousands of Canadian dollars)	2003	2002
Retained earnings – Beginning of year	$ 20 242	$ 18 554
Net earnings for the year	1 417	1 688
Shares purchased and cancelled (note 8(e))	(48)	—
Retained earnings – End of year	$ 21 611	$ 20 242

Consolidated Statements of Earnings

For the years ended September 30, 2003 and 2002

(In thousands of Canadian dollars except per share and share figures)	2003	2002
Revenue		
Services	$ 147 997	$ 128 589
Product sales	2 923	1 363
	150 920	129 952
Expenses		
Compensation costs	109 030	96 497
Other costs	9 786	9 368
Product costs	2 402	1 174
	121 218	107 039
Gross profit	29 702	22 913
General and administration	19 786	16 639
Amortization of property and equipment	3 317	3 206
Earnings from operations	6 599	3 068
Foreign exchange (loss) gain	(2 402)	174
Interest	88	193
Earnings before income taxes	4 285	3 435
Provision for (recovery of) income taxes (note 7)		
Current	3 722	2 462
Future	(842)	(715)
	2 880	1 747
Earnings before equity accounted investee	1 405	1 688
Equity earnings of Donna Cona II Inc. (note 11)	12	—
Net earnings for the year	$ 1 417	$ 1 688
Earnings per share	$ 0.15	$ 0.18
Diluted earnings per share	$ 0.15	$ 0.18
Weighted average number of common shares outstanding (note 10)	9 337 523	9 237 964

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002

(IN THOUSANDS OF CANADIAN DOLLARS)	2003	2002
Cash flows provided by (used in)		
Operating activities		
Net earnings for the year	$ 1 417	$ 1 688
Items not affecting cash		
Amortization of property and equipment	3 317	3 206
Amortization of intangible asset	39	—
Future income taxes	(842)	(715)
	3 931	4 179
Net change in non-cash working capital items relating to operations	(3 172)	(3 767)
Net change in long-term accounts receivable	1 558	2 213
	2 317	2 625
Financing activities		
Project financing – net	(995)	(2 777)
Shares purchased for long-term incentive plan	(192)	(193)
Shares purchased and cancelled (note 8(e))	(92)	—
Shares issued (note 8)	337	270
Repayment of capital lease obligation	(145)	(52)
	(1 087)	(2 752)
Investing activities		
Purchase of property and equipment	(3 752)	(2 214)
Business acquisitions (note 3)	—	(8 072)
	(3 752)	(10 286)
Decrease in cash and cash equivalents	(2 522)	(10 413)
Cash and cash equivalents – Beginning of year	6 315	16 728
Cash and cash equivalents – End of year	$ 3 793	$ 6 315
Represented by		
Cash and cash equivalents	$ 4 023	$ 10 803
Bank indebtedness	(230)	(4 488)
	$ 3 793	$ 6 315

Supplementary cash flow information (note 14)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2003 AND 2002
(AMOUNTS IN TABLES ARE IN THOUSANDS OF CANADIAN DOLLARS EXCEPT PER SHARE AND SHARE FIGURES)

1. NATURE OF OPERATIONS

Sierra Systems Group Inc. (the Company) based in Vancouver, British Columbia, provides a full range of information technology services that enhance the competitive position of its clients throughout North America.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Generally accepted accounting principles

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Principal operating subsidiaries are Sierra Systems Consultants Inc. and Sierra/Computec Consulting Inc. The Company's 49% interest in Donna Cona II Inc. (DCII) was recorded on a proportionate consolidation basis until June 30, 2003. Effective July 1, 2003, the Company relinquished joint control but maintained the ability to exercise significant influence over DCII. From this date, the equity method was used to account for the Company's 42% interest in this business. All intercompany transactions have been eliminated.

Revenue recognition

The Company provides a broad range of information technology consulting services to its clients through either time and materials or fixed price projects.

In the case of time and materials projects, revenue is recognized as the services are performed, when a contractual arrangement exists, the Company's fee is determinable and collection is probable.

In the case of fixed price projects, revenue is recognized on the basis of the estimated percentage of completion of services rendered that reflects the extent of work accomplished. Management estimates the percentage of completion by reference to measures of performance that are reasonably determinable and are directly related to the activities critical to completion of the project. This method requires estimates of costs and profits over the entire term of the project. Management regularly reviews underlying estimates of project profitability. Revisions to estimates are reflected in the consolidated statement of earnings in the period in which the facts that give rise to the revision become known.

Provisions for estimated losses, if any, are recognized in the period in which the loss is determined. Project losses are measured by the amount by which the estimated costs of the project exceed the estimated total revenue from the project.

Work-in-progress represents services provided that have not yet been billed and is valued at estimated realizable value.

Deferred revenue includes billings in advance of services performed.

Product revenue is recognized when the product has been delivered to the customer, the amount is determinable, no significant vendor obligations remain and the collection of the agreed upon fee is reasonably assured.

Translation of accounts of foreign subsidiaries

The Company's foreign operations are considered integrated (financially and operationally dependent on the parent) and, as such, are translated into Canadian dollars using current rates of exchange for monetary assets and liabilities. Historical rates of exchange are used for non-monetary assets and liabilities and average rates for the year are used for revenues and expenses. Gains and losses resulting from these translation adjustments are included in income.

Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit and highly liquid short-term interest-bearing securities with terms at the date of purchase of three months or less.

Property and equipment

Effective October 1, 2002, the Company changed the method of amortization for furniture and equipment, computer hardware and computer software from declining balance to straight-line. The change did not have a material effect on the reported results.

Property and equipment are carried at the lower of cost, less accumulated amortization, and net recoverable amount. Amortization is calculated over the estimated useful lives of the assets at the following rates:

Furniture and equipment	7 years straight-line
Computer hardware	4 years straight-line
Computer software	3 years straight-line
Leasehold improvements	over the remaining life of the lease
Enterprise application software	8 years straight-line

Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values.

Goodwill is not amortized but is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The Company performs an annual impairment test of its goodwill based on (a) the market capitalization of the Company, and (b) an analysis of valuation metrics of comparable companies, and has determined that no goodwill impairment charge is required.

Intangible asset

The Company's intangible asset relates to a favorable contract entered into on July 1, 2003, and is amortized over the four-year term of the contract on a straight-line basis (note 11).

Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying values of existing assets and liabilities and their respective income tax bases (temporary differences). The resulting changes in the net future income tax asset or liability are included in income. Future income tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. Future income tax assets are evaluated periodically and if realization is not considered "more likely than not" a valuation allowance is provided.

Earnings per share

Basic earnings per share is computed using the weighted average number of common shares outstanding during the period. The treasury stock method is used for the calculation of diluted earnings per share. Under this method, the weighted average number of common shares outstanding assumes that the proceeds to be received on the exercise of dilutive stock options are applied to repurchase common shares at the average market price for the period. Stock options are dilutive when the average market price of the common shares during the period exceeds the exercise price of the options.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of estimates relate to the determination of percentage of completion of projects, estimated project costs and revenues for contract revenue recognition and estimates in relation to accrued liabilities and future income tax balances. Because of the use of estimates inherent in the financial reporting process, actual results could differ from those estimates.

Stock-based compensation plans

On October 1, 2002, the Company adopted the new recommendations of CICA Handbook Section 3870, Stock-based Compensation and Other Stock-based Payments. The new recommendations are applied prospectively to all stock-based payments to employees and non-employees granted on or after October 1, 2002. The change in accounting policy did not result in an adjustment to the Company's opening retained earnings.

The Section establishes standards for the recognition, measurement and disclosure of stock-based compensation. It encourages, but does not require, the use of the fair value method to account for stock-based compensation costs arising from awards to employees. The Section requires pro forma disclosure of net earnings and earnings per share as if the fair value method of accounting had been used. The Company has chosen to adopt the disclosure only provisions of the Section relating to the fair value method of accounting for options granted to employees.

The Company has three stock-based compensation plans described in note 8:

a) Under the Employee Share Ownership Plan (ESOP), a 15% subsidy provided by the Company is recognized as compensation expense when the shares are purchased.

b) Under the stock option plan, no compensation expense is recognized when stock and stock options are issued to employees and directors. Any consideration paid by employees and directors on exercise of options or purchase of stock is credited to capital stock.

c) Under the Long-Term Incentive Plan, common share-based awards are recognized as compensation expense on a straight-line basis over the vesting period.

Comparative financial information

Certain prior period amounts have been reclassified to conform with the presentation adopted in the current year.

3. BUSINESS ACQUISITIONS

INSI strategic technologies inc. (INSI)

On June 1, 2002, the Company acquired all the outstanding shares of INSI, a Winnipeg-based company specializing in the provision of systems integration services. The aggregate purchase price of the acquisition was $7,872,000, of which $6,861,000 was assigned to goodwill. None of the amount recorded as goodwill is deductible for tax purposes. The acquisition was accounted for using the purchase method and, accordingly, the

purchase price was allocated to the assets acquired and the liabilities assumed based on their fair values at June 1, 2002 as follows:

Net assets at fair values		
Working capital	$	897
Property and equipment		220
Goodwill		6 861
Long-term liabilities		(106)
Cost of acquisition	$	7 872
Consideration		
Cash	$	6 872
Common shares		1 000
	$	7 872

Of the cash consideration paid, $2,980,000 (2002 - $4,677,000) is held in escrow to be released to certain vendors contingent upon their continued employment with the Company; $1,490,000 will be released on each of June 1, 2004 and 2005. Certain shares were also held in escrow and will be released on the dates noted above (see note 8).

Transformation Solutions Inc. (TSI)

On November 1, 2001, the Company acquired all of the outstanding shares of TSI, a management consulting company. The cost of the acquisition was $1,200,000, of which $1,045,000 was assigned to goodwill. None of the amount assigned to goodwill is deductible for tax purposes. The acquisition was accounted for using the purchase method and, accordingly, the purchase price was allocated to the assets acquired based on their fair values at November 1, 2001 as follows:

Net assets at fair values		
Working capital	$	76
Property and equipment		79
Goodwill		1 045
Cost of acquisition	$	1 200
Consideration - cash	$	1 200

Of the consideration paid, $520,000 (2002 - $780,000) is held in escrow and will be released to certain vendors contingent upon their continued employment with the Company; $260,000 will be released on each of November 1, 2003 and 2004.

4. Long-term Accounts Receivable and Project Financing

The long-term accounts receivable related to certain long-term contracts for which the Company had arranged project financing. The long-term accounts receivable included interest at the same rates and in the same amounts as were applicable to the project financing. All client payments that were received on the contracts were applied to pay interest and reduce the project financing outstanding.

The Company had arranged a credit facility with a Canadian bank for a long-term client contract. Repayment was by monthly installments of $243,333 until March 31, 2003. The long-term accounts receivable were pledged as security. The loan was fully repaid in 2003.

5. Property and Equipment

2003	Cost	Accumulated amortization	Net
Computer hardware	$ 13 090	$ 9 206	$ 3 884
Computer software	5 816	4 418	1 398
Enterprise application software	1 347	210	1 137
Furniture and equipment	8 432	5 393	3 039
Leasehold improvements	2 773	1 531	1 242
	$ 31 458	$ 20 758	$ 10 700

2002	Cost	Accumulated amortization	Net
Computer hardware	$ 11 834	$ 7 760	$ 4 074
Computer software	3 995	3 737	258
Enterprise application software	1 347	42	1 305
Furniture and equipment	8 181	4 772	3 409
Leasehold improvements	2 444	1 225	1 219
	$ 27 801	$ 17 536	$ 10 265

Included in property and equipment are assets purchased under capital leases with a cost of $309,000 (2002 - $309,000) and accumulated amortization of $208,000 (2002 - $166,000).

6. BANK INDEBTEDNESS

The Company has operating bank lines of credit of $7,000,000 and US$500,000. Accounts receivable have been pledged as security for the bank indebtedness. Interest on these facilities is charged at bank prime rates.

7. INCOME TAXES

		2003		2002
Earnings before income taxes	$	4 285	$	3 435
Expected provision based on a tax rate of 38.12% (2002 - 40.29%)	$	1 633	$	1 384
Increase resulting from				
Non-deductible expenses		213		125
Unrealized foreign exchange losses		875		—
Foreign tax differential		142		199
Other		17		39
Reported income tax provision	$	2 880	$	1 747

The following table provides details of non-capital loss carry-forwards of Sierra/Computec Consulting:

Expiry date		Loss carry-forwards US$
2020	$	1 879
2021		2 073
2022		3 988
2023		5 890
	$	13 830

As at September 30, 2003, the Company's future tax assets and liabilities were as follows:

		2003		2002
Differences in working capital deductions for tax and accounting purposes	$	(2 358)	$	(415)
Property and equipment		(495)		(346)
Goodwill		19		67
Non-capital loss carry-forwards		7 465		4 633
		4 631		3 939
Valuation allowance		(1 116)		(758)
Total net future tax assets	$	3 515	$	3 181
Comprising				
Non-current asset	$	6 345	$	3 829
Current liability		(2 390)		(465)
Non-current liability		(440)		(183)
	$	3 515	$	3 181

8. CAPITAL STOCK

a) Capital stock

Authorized

100,000,000 common shares without par value
50,000,000 preferred shares without par value

Issued

	2003 Common shares		2003 Amount	2002 Common shares		2002 Amount
Balance — Beginning of year	9 324 827	$	41 147	9 182 520	$	40 070
Issued pursuant to the ESOP	45 574		337	39 101		264
Exercise of options	—		—	1 000		6
Issued for acquisition (note 3)	—		—	127 532		1 000
Shares purchased for Employee Benefit Trust	(25 407)		(192)	(25 326)		(193)
Employee Benefit Trust shares vested	9 849		72	—		—
Shares purchased and cancelled	(10 000)		(44)	—		—
Balance — End of year	9 344 843	$	41 320	9 324 827	$	41 147

b) Stock options

The Company has a stock option plan which grants to directors and certain employees of the Company the option to purchase up to 1,311,900 common shares of the Company. The exercise price of each option is determined to be the market price of the Company's stock on the date of grant and an option's maximum term is 10 years. Options generally vest over 3 to 5 years.

Under this stock option plan, had compensation costs been determined using the fair value based method at the date of the grant for awards granted since October 1, 2002, the Company's pro forma net earnings, and basic and diluted earnings per share would have been as follows:

		2003
Net earnings – as reported	$	1 417
Pro forma net earnings	$	1 300
Basic and diluted net earnings per share as reported	$	0.15
Pro forma basic and diluted net earnings per share	$	0.14

The weighted-average grant date fair value of the 208,200 stock options granted in the year ended September 30, 2003 was $7.86 per share. The fair value calculations were made using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 3.5% - 4.2%, dividend yield of 0%, expected volatility of 29% - 51% and expected life of one to four years.

The following table summarizes the movement in options outstanding under the plan:

	2003 Share options outstanding		2003 Weighted average exercise price	2002 Share options outstanding		2002 Weighted average exercise price
Balance — Beginning of year	1 043 957	$	15.60	851 077	$	18.19
Options granted	208 200		7.86	263 900		7.08
Options exercised	—		—	(1 000)		6.35
Options expired	(23 000)		18.13	—		—
Options cancelled	(32 697)		11.34	(70 020)		15.13
Balance — End of year	1 196 460	$	14.32	1 043 957	$	15.60

The following table provides details of options outstanding at September 30, 2003:

	Options outstanding			Options exercisable		
Expiry date	Number of options		Range of exercise prices	Number exercisable		Weighted average exercise price
2004	478 560	$	13.45 - 34.00	472 760	$	19.60
2005	240 100	$	5.15 - 26.00	160 900	$	16.29
2006	208 800	$	5.25 - 24.00	61 900	$	10.21
2007	131 900	$	6.00 - 8.50	45 200	$	7.16
2008	76 900	$	6.10 - 8.10	52 900	$	6.85
2009	60 200	$	7.70 - 8.53	—		—
	1 196 460			793 660		

c) **Shares held in escrow**

	Balance — September 30, 2002	Released during the year	Balance — September 30, 2003
Acquisition of INSI	95 649	31 883	63 766
Acquisition of TWA Consulting Services Inc.	24 860	24 860	—
	120 509	56 743	63 766

The common shares held in escrow will be released in equal installments on June 1, 2004 and 2005.

d) **Employee Share Ownership Plan (ESOP)**

The ESOP permits all full-time employees of the Company to purchase common shares through payroll deductions. Shares are purchased quarterly at prevailing market prices with a 15% subsidy from the Company. During the year, the Company contributed $94,000 (2002 - $71,000), which has been included in compensation expense in the consolidated statement of earnings.

e) **Shares purchased and cancelled**

On January 21, 2003, the Company initiated its first normal course issuer bid. Under the bid, the Company had the right to purchase for cancellation up to a maximum of 400,000 of its common shares (representing approximately 4.25% of the Company's outstanding shares) over the following 12 months through the facilities of the Toronto Stock Exchange. During the year ended September 30, 2003, the Company acquired 10,000 shares at an average price of $9.20.

f) **Long-Term Incentive Plan**

Certain key employees are provided with common share-based awards. The funding for awards under this plan is paid into a trust, which purchases common shares of the Company on the open market. The shares are recorded as treasury stock and are presented as a reduction of capital stock. For participating employees, full vesting occurs upon three years of service. Compensation expense is recognized on a straight-line basis over the vesting period and amounted to $206,000 (2002 - $116,000).

During the year, the Company provided funding of $192,000 (2002 - $194,000) that was used to acquire 25,407 (2002 - 25,326) common shares of Sierra Systems Group Inc.

9. COMMITMENTS AND CONTINGENCIES

The Company is committed to minimum annual lease payments on its premises, excluding operating costs, as follows:

2004	$	4 044
2005		3 178
2006		2 555
2007		2 286
2008		1 967
2009 and thereafter		3 450
	$	17 480

The Company has posted performance bonds relating to certain projects with a total value of US$12 million. These expire on the satisfactory completion of the contracts. Letters of credit of US$2.1 million are pledged as collateral for these bonds.

10. EARNINGS PER SHARE

Basic earnings per share are calculated based upon the weighted average number of common shares outstanding during the period.

Diluted earnings per share calculations, if dilutive, include the effect of common stock options using the treasury stock method. The calculation of basic and diluted earnings per share is as follows:

	2003	2002
Basic earnings per share		
Net earnings	$ 1 417	$ 1 688
Weighted average number of common shares outstanding	9 337 523	9 237 964
Earnings per share	$ 0.15	$ 0.18
Diluted earnings per share		
Net earnings	$ 1 417	$ 1 688
Weighted average number of common shares outstanding	9 337 523	9 237 964
Dilutive instruments	121 600	78 936
Total shares	9 459 123	9 316 900
Diluted earnings per share	$ 0.15	$ 0.18

The computation of diluted earnings per common share does not include 739,560 options (2002 - 854,000) as they were anti-dilutive.

11. INVESTMENT IN DONNA CONA II INC. (DCII)

In August 2002, the Company entered into an agreement with DCII to relinquish its 49% interest in DCII over a four-year period in four equal installments commencing on July 1, 2003. In conjunction, the Company was awarded a subcontracting agreement with DCII that extends over the same four-year period.

The value assigned to the subcontracting agreement representing the investment in DCII has been recorded as an intangible asset of $631,000, which is amortized to cost of sales over the four-year term of the subcontracting agreement on a straight-line basis.

Until June 30, 2003, the proportionate consolidation method was used to account for the Company's 49% interest in DCII, as joint control existed. On this date, the Company relinquished joint control over DCII, and effective July 1, 2003, the equity method was used to account for the Company's remaining 42% interest.

The following amounts represented the Company's interest in DCII:

	Nine months to June 30, 2003	Year ended September 30, 2002
Current assets	N/A	$ 1 180
Long-term assets	N/A	$ 42
Current liabilities	N/A	$ 845
Revenue	$ 4 517	$ 3 788
Expenses	$ 4 319	$ 3 682
Net earnings	$ 198	$ 106
Cash flows from operating activities	$ 208	$ 29
Cash flows from investing activities	$ (5)	$ (43)

In addition, during the year ended September 30, 2003, the Company recorded revenues of $1,245,000 (2002 - $762,000) from DCII, of which $221,000 was included in accounts receivable at September 30, 2003 (2002 - $539,000).

12. Business Segment Information

The Company operates in one business segment – providing IT services. The Company operates primarily in Canada and the United States. Geographical information is based upon the country in which the Company's operations are located.

		Canada		United States		Total
2003						
Revenue	$	98 755	$	52 165	$	150 920
Property and equipment and goodwill	$	26 379	$	3 633	$	30 012
2002						
Revenue	$	83 355	$	46 597	$	129 952
Property and equipment and goodwill	$	27 144	$	2 433	$	29 577

During the year ended September 30, 2003, revenues from one customer constituted 10% of total revenue. In 2002, no single customer accounted for 10% or more of total revenue.

13. Financial Instruments

a) Financial risk

Financial risk to the Company's earnings arises from the fluctuations in foreign exchange rates and in interest rates and the degree of volatility of these rates. The Company has not used derivative instruments to reduce its exposure to interest or currency risk. Compensation and other costs in U.S. dollars significantly offset sales in U.S. dollars in the normal course of business and, consequently, reduce the Company's exposure to currency risk.

b) Credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade receivables. The Company's risk relating to its trade receivables is limited due to the wide variety of customers and markets into which the Company's services are sold.

c) Fair values

The fair values of the Company's cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities are estimated to approximate their carrying values due to the immediate or short-term maturity of these financial instruments. The fair values of the long-term accounts receivable and project financing are estimated to approximate their carrying values because they each include interest at floating rates.

14. Supplementary Cash Flow Information

		2003		2002
Interest and income taxes				
Interest paid	$	72	$	166
Interest received		170		362
Income taxes paid		3 617		2 937
Income taxes refunded		1 127		897
Non-cash financing activities				
Shares issued for acquisition		—		1 000

15. Subsequent Event

On November 13, 2003, the Company announced that it had signed a letter of intent to acquire Eastbridge Consulting Inc. and its subsidiary, Eastech Advanced Development Inc., both headquartered in Halifax, Nova Scotia. The two companies provide information technology consulting services. The estimated purchase cost is $6.0 million.

Directors & Officers

Board of Directors (L to R): Robert H. Birch, Robert W. Murdoch,(2) Peter F. Webb,(1) Grant R. Gisel,(2) Frederick R. Wright,(1) Ian U. Reid,(2) John A. Vivash,(1)
Absent: Eric Rosenfeld (appointed October 2, 2003), J. Ian Giffen(1) (appointed November 6, 2003)

(1) Member of the Audit Committee
(2) Member of the Compensation Committee

Board of Directors

Grant R. Gisel, Chairman, President and Chief Executive Officer
Robert H. Birch, Vice President and Director
J. Ian Giffen, Director
Robert W. Murdoch, Director
Ian U. Reid, Director
Eric Rosenfeld, Director
John A. Vivash, Director
Peter F. Webb, Director
Frederick R. Wright, Director

Officers (L to R): Robert H. Birch, Grant R. Gisel, Caroline J. Dunn, Susan L. Jeffery, R.M. Kent Meisner, Donald J. Lundgren

Officers

Grant R. Gisel
President and Chief Executive Officer

Donald J. Lundgren
Executive Vice President, Canadian Operations

R. M. Kent Meisner
Executive Vice President, U.S. Operations

Robert H. Birch
Vice President

Caroline J. Dunn
Vice President and Chief Financial Officer

Susan L. Jeffery
Corporate Secretary

Notice of Annual Meeting

The Annual Meeting of Shareholders will be held in the Boardroom at The Fairmont Hotel Vancouver, 900 West Georgia Street, Vancouver, BC, on Tuesday, February 24, 2004 at 11:00 a.m. PST.

All shareholders are cordially invited to attend.

Sierra New thinking.

SIERRA SYSTEMS GROUP INC.

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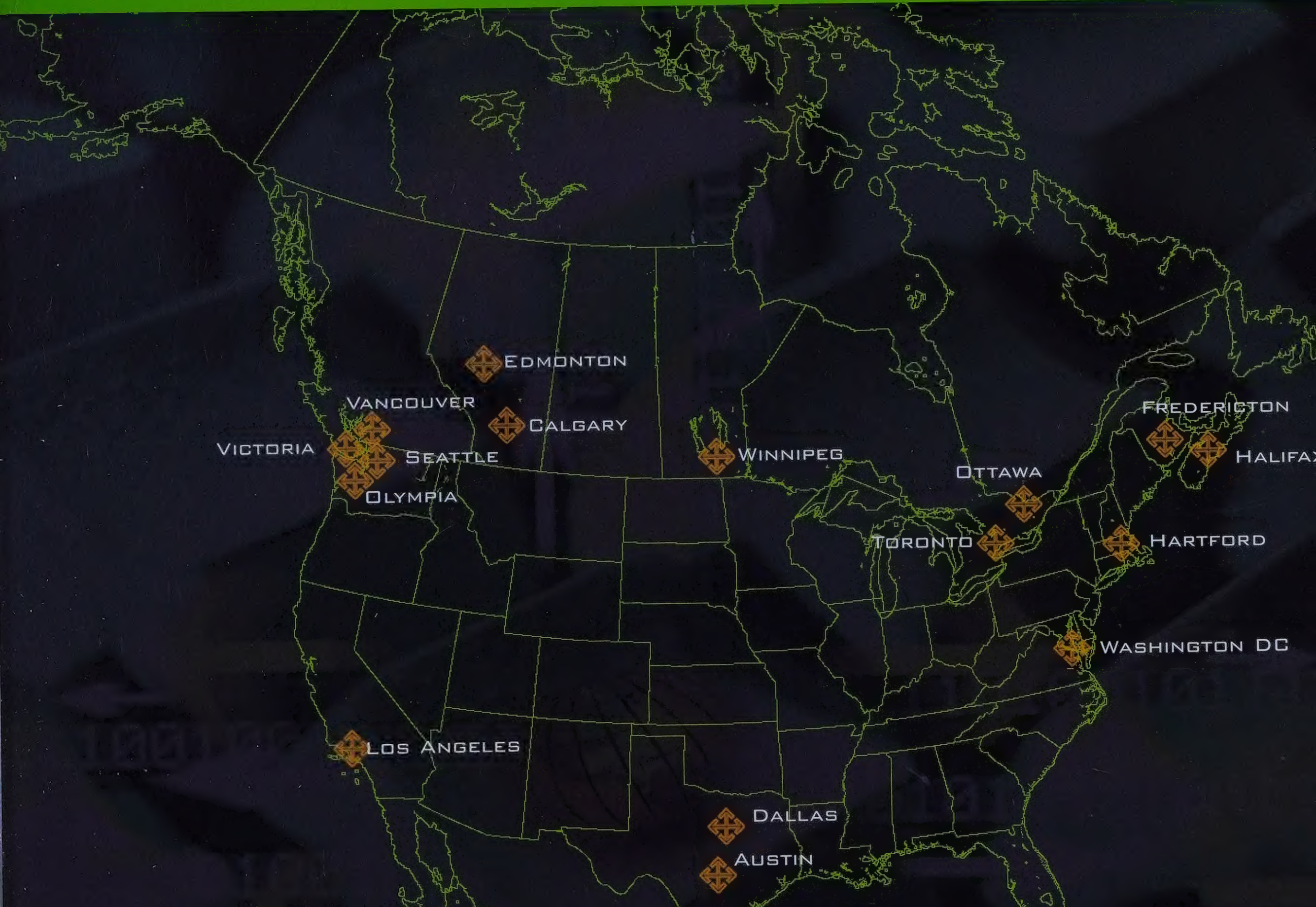

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